

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Village of Muir - Sanitary Sewer System</b>	County <b>Ionia</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>7/27/04</b>	Date Accountant Report Submitted to State: <b>5/5/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Hungerford, Aldrin, Nichols &amp; Carter, PC</b>			
Street Address <b>2910 Lucerne Drive SE</b>	City <b>Grand Rapids</b>	State <b>MI</b>	ZIP <b>49546</b>
Accountant Signature <i>Hungerford, Aldrin, Nichols &amp; Carter, P.C.</i>		Date <b>5/5/05</b>	

**VILLAGE OF MUIR  
SANITARY SEWER SYSTEM  
Ionia County, Michigan**

Comprehensive Annual Financial Report

For the year ended June 30, 2004

**VILLAGE OF MUIR**  
**SANITARY SEWER SYSTEM**  
**Table of Contents**  
For the year ended June 30, 2004

---

**Introductory Section**

Title Page

Table of Contents

**Financial Section**

<i>Independent Auditor's Report</i> .....	1
<i>Management's Discussion and Analysis</i> .....	3
<i>Basic Financial Statements</i> .....	9
Statement of Net Assets .....	10
Statement of Activities.....	11
Balance Sheet.....	12
Statement of Revenues, Expenses and Changes in Fund Equity.....	13
Statement of Cash Flows .....	14
Notes to Basic Financial Statements .....	15
Supplemental Information:	
Combining Balance Sheet .....	22
Combining Statement of Revenues, Expenses and Changes in Fund Equity .....	24
Combined Statement of Revenues, Expenses and Changes in Fund Equity – Budget and Actual .....	26
Combining Schedule of Expenses - Operating and Maintenance Fund .....	27

## **FINANCIAL SECTION**

Hungerford, Aldrin,  
Nichols & Carter, P.C.  

---

C P A s   A N D   C O N S U L T A N T S

**INDEPENDENT AUDITOR'S REPORT**

July 27, 2004

The Village Council  
Village of Muir  
Muir, Michigan

We have audited the accompanying financial statements of the business-type activities of the major fund of the Village of Muir Sanitary Sewer System (the "System") as of and for the year ended June 30, 2004, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Muir's elected officials and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements presented include only the Village of Muir Sanitary Sewer System and are not intended to present fairly the financial position and results of operations and cash flows of the Village of Muir.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the major fund of the Village of Muir Sanitary Sewer System as of June 30, 2004, and the respective changes in financial position and cash flows of its proprietary fund type for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Village adopted the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments: Omnibus* – an Amendment of GASB Statements No. 21 and No. 34 and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* as of July 1, 2003.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic purpose financial statements taken as a whole. The accompanying financial information identified as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Village of Muir Sanitary Sewer System. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hungerford, Aldrin, Nichols & Bente, P.C.*

Certified Public Accountants

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**VILLAGE OF MUIR**  
**SANITARY SEWER SYSTEM**  
**Management's Discussion and Analysis**  
**June 30, 2004**

---

As management of the Village of Muir Sanitary Sewer System ("the System"), we offer readers of the System's financial statements this narrative overview and analysis of the financial activities of the System for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with the System's financial statements, which immediately follow this section.

**GASB Adoption**

As of July 1, 2003, the System adopted Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as amended by GASB Statement No. 37 and No. 38, and applied those standards on a retroactive basis.

**Overview of the Financial Statements**

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements, and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of the System:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *government-wide financial statements* that provide both short-term and long-term information about the System's overall financial status. The System's activities are presented as *business-type* activities, as the costs of the basic services of the System are intended to be recovered through user fees and charges.
- The remaining statements are *fund financial statements* that focus on individual parts of the System and present the information in a more traditional format.
  - ♦ *Proprietary fund statements* provide the same type of information as the government-wide financial statements, only in more detail. The Sewer Enterprise Fund is the System's major fund, and its only fund.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes budget to actual comparisons and balances and activities by department.

**Government-wide Statements**

The government-wide financial statements report information about the System as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the System's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.



**VILLAGE OF MUIR**  
**SANITARY SEWER SYSTEM**  
**Management's Discussion and Analysis**  
**June 30, 2004**

---

The two government-wide statements report the System's net assets, and how they have changed. Net assets - the difference between the System's assets and liabilities - is one way to measure the System's financial health or position.

- Over time, increases or decreases in the System's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the System's overall health, one should consider additional non-financial factors such as changes in the System's user base and the condition of System buildings, equipment and other facilities.

**Condensed Government-Wide Financial Information**

The Statement of Net Assets provides financial information for the System as a whole.

<b>Assets</b>	
Current assets	\$ 331,801
Capital assets	1,038,048
Less accumulated depreciation	<u>(758,050)</u>
Capital assets, net book value	<u>279,998</u>
<b>Total Assets</b>	<b><u>611,799</u></b>
<b>Liabilities</b>	
Current liabilities	<u>1,160</u>
<b>Net Assets</b>	
Invested in capital assets	279,998
Restricted	153,728
Unrestricted	<u>176,913</u>
<b>Total Net Assets</b>	<b><u><u>\$ 610,639</u></u></b>

A portion of the System's net assets of (\$153,728) represents resources that are subject to external restrictions on how they may be used. The System may use the remaining balance of unrestricted net assets of \$176,913 to meet its ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the System is able to report positive balances in all three categories of net assets. As this is the first year that we have prepared our financial statements in accordance with GASB Statement 34, we are unable to present comparative data for the prior year.

**VILLAGE OF MUIR**  
**SANITARY SEWER SYSTEM**  
**Management's Discussion and Analysis**  
**June 30, 2004**

---

The Statement of Activities presents changes in net assets from operating results:

	<u>Amount</u>	<u>% of Total</u>
<b>Program Revenues</b>		
Charges for services	\$ 95,565	94.6%
<b>General Revenues</b>		
Interest income	<u>5,468</u>	<u>5.4</u>
<b>Total Revenues</b>	<u>101,033</u>	<u>100.0</u>
<b>Expenses</b>		
Operating	45,502	57.4
Interest	1,025	1.3
Depreciation	<u>32,698</u>	<u>41.3</u>
<b>Total Expenses</b>	<u>79,225</u>	<u>100.0</u>
Increase in net assets	21,808	
<b>Net Assets - Beginning of Year</b>	<u>588,831</u>	
<b>Net Assets - End of Year</b>	<u><u>\$ 610,639</u></u>	

**Financial Analysis of the System as a Whole**

The System's total revenues (user fees) increased by 11 percent to \$101,033. Charges for services accounted for about 95 percent of every dollar raised. The remaining 5 percent came from interest income.

The System's financial position is the product of many factors. Additional hook up fees and the adjustment of prior year accounts payable contributed to an increase in revenue.

Operating expenses decreased by 4 percent to \$78,200. The System's expenses are predominantly related to operation and depreciation on capital assets. The System reduced clerical salaries which contributed to the decrease in expenses.

**Fund Financial Statements**

Major Fund

Sewer Enterprise Fund – The System's only fund had an excess of operating revenues over operating expenses resulting in operating income of \$17,365 for the fiscal year, which along with an excess of interest income over interest expense of \$4,443 increased fund equity to the \$610,639 reported as net assets above.

**VILLAGE OF MUIR**  
**SANITARY SEWER SYSTEM**  
**Management's Discussion and Analysis**  
**June 30, 2004**

---

**Budgetary Highlights**

The System did not revise the annual Enterprise Fund operating budget during the fiscal year.

**Capital Asset and Debt Administration**

Capital Assets

By June 30, 2004, the System had invested \$1,038,048 in capital assets, including land and system facilities. This amount remained unchanged from June 30, 2003. More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.

The net book value of System assets at June 30, 2004 are as follows:

Land	\$ 26,000
System facilities	1,012,048
Less accumulated depreciation	<u>(758,050)</u>
<b>Net Capital Assets</b>	<b><u>\$ 279,998</u></b>

Long-Term Debt

At year end, the System had no long-term debt outstanding, having retired the balance of \$41,000 from June 30, 2003.

- The System paid off \$41,000 in revenue bonds payable to fully retire all outstanding bonds of the Sanitary Sewer System.

**Factors Bearing on the System's Future**

At the time these financial statements were prepared and audited, the System was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The System had its lagoons evaluated by the Michigan Rural Water Association. Based on the data collected, it was estimated that the Village of Muir would not need to remove any sludge for another ten years, provided loadings remain consistent. This will allow the System time to accumulate monies to help pay for the sludge removal.

**Contacting the System's Financial Management**

This financial report is designed to provide the System's citizens, taxpayers, customers, and investors and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Village of Muir, PO Box 205, Muir, Michigan 48860-0205.

## **BASIC FINANCIAL STATEMENTS**

**VILLAGE OF MUIR**  
**SANITARY SEWER SYSTEM**  
**Statement of Net Assets**  
**June 30, 2004**

	<u>Business-Type Activities</u>
<b>Assets</b>	
<b>Current Assets</b>	
Cash equivalents (Note B)	\$ 82,285
Investments (Note B)	88,108
Accounts receivable (Note C)	8,580
Restricted assets:	
Cash equivalents (Note B)	32,428
Investments (Note B)	120,400
<b>Total Current Assets</b>	<u>331,801</u>
<b>Noncurrent Assets</b>	
Capital assets	1,038,048
Less accumulated depreciation	<u>(758,050)</u>
<b>Total Noncurrent Assets</b>	<u>279,998</u>
<b>Total Assets</b>	<u>611,799</u>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Due to other governmental units (Note D)	<u>1,160</u>
<b>Net Assets</b>	
Invested in capital assets	279,998
Restricted (Note G)	153,728
Unrestricted	<u>176,913</u>
<b>Total Net Assets</b>	<u><u>\$ 610,639</u></u>

See accompanying notes to basic financial statements.

Functions/Programs	Expenses	<u>Program Revenues</u>		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
<b>Business-Type Activities</b>				
Sewer enterprise fund	\$ 79,225	\$ 95,565	\$ -	\$ 16,340
	<b>General Revenues</b>			
	Interest income			5,468
	<b>Change in Net Assets</b>			21,808
	<b>Net Assets - Beginning of Year</b>			588,831
	<b>Net Assets - End of Year</b>			\$ 610,639

11

**VILLAGE OF MUIR  
SANITARY SEWER SYSTEM  
Proprietary Fund  
Balance Sheet  
June 30, 2004 and 2003**

	Sewer Enterprise Fund	
	2004	2003
<b>Assets</b>		
<b>Current Assets</b>		
Cash equivalents (Note B)	\$ 82,285	\$ 120,739
Investments (Note B)	88,108	86,031
Accounts receivable (Note C)	8,580	10,300
Due from other governmental units	-	1,158
Restricted assets:		
Cash equivalents (Note B)	32,428	32,363
Investments (Note B)	120,400	72,309
Total Current Assets	<u>331,801</u>	<u>322,900</u>
<b>Noncurrent Assets</b>		
Capital assets (Note E):		
Land	26,000	26,000
Collection system	522,971	522,971
Treatment facility	489,077	489,077
Total Capital Assets	<u>1,038,048</u>	<u>1,038,048</u>
Less accumulated depreciation	<u>(758,050)</u>	<u>(725,352)</u>
Net Capital Assets	<u>279,998</u>	<u>312,696</u>
<b>Total Assets</b>	<u><u>\$ 611,799</u></u>	<u><u>\$ 635,596</u></u>
<b>Liabilities and Fund Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ -	\$ 5,765
Due to other governmental units (Note D)	1,160	-
Current portion of revenue bonds payable (Note F)	<u>-</u>	<u>41,000</u>
Total Current Liabilities	<u>1,160</u>	<u>46,765</u>
<b>Noncurrent Liabilities, Net of Current Portion</b>		
Revenue bonds payable (Note F)	<u>-</u>	<u>-</u>
<b>Total Liabilities</b>	<u>1,160</u>	<u>46,765</u>
<b>Fund Equity</b>		
Retained earnings:		
Restricted (Note G)	153,728	105,542
Unrestricted	<u>456,911</u>	<u>483,289</u>
<b>Total Fund Equity</b>	<u>610,639</u>	<u>588,831</u>
<b>Total Liabilities and Fund Equity</b>	<u><u>\$ 611,799</u></u>	<u><u>\$ 635,596</u></u>

See accompanying notes to basic financial statements.

**VILLAGE OF MUIR**  
**SANITARY SEWER SYSTEM**  
**Proprietary Fund**  
**Statement of Revenues, Expenses and Changes in Fund Equity**  
**For the years ended June 30, 2004 and 2003**

	Sewer Enterprise Fund	
	2004	2003
<b>Operating Revenues</b>		
Sewer usage fees	\$ 79,843	\$ 73,881
Reimbursements from Village of Lyons	10,840	11,158
Hookup fees, other	4,752	-
Customer deposits	130	192
<b>Total Operating Revenues</b>	<b>95,565</b>	<b>85,231</b>
<b>Operating Expenses</b>		
Salaries	29,396	32,655
Supplies and materials	2,294	2,230
Contracted services	13,530	13,472
Other	282	198
Depreciation	32,698	32,698
<b>Total Operating Expenses</b>	<b>78,200</b>	<b>81,253</b>
<b>Operating Income</b>	<b>17,365</b>	<b>3,978</b>
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	5,468	6,090
Interest expense	(1,025)	(2,050)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>4,443</b>	<b>4,040</b>
<b>Net Income</b>	<b>21,808</b>	<b>8,018</b>
<b>Fund Equity, Beginning of Year</b>	<b>588,831</b>	<b>580,813</b>
<b>Fund Equity, End of Year</b>	<b>\$ 610,639</b>	<b>\$ 588,831</b>

See accompanying notes to basic financial statements.



**VILLAGE OF MUIR  
SANITARY SEWER SYSTEM  
Proprietary Fund  
Statement of Cash Flows  
For the years ended June 30, 2004 and 2003**

	Sewer Enterprise Fund	
	2004	2003
<b>Cash Flows From (For) Operating Activities</b>		
Cash received from customers	\$ 98,443	\$ 82,431
Cash payments to suppliers for goods and services	(20,711)	(26,293)
Cash payments to employees for services	(29,396)	(32,655)
<b>Net Cash From (For) Operating Activities</b>	<b>48,336</b>	<b>23,483</b>
<b>Cash Flows From (For) Capital and Related Financing Activities</b>		
Principal paid on long-term debt	(41,000)	-
Interest expense	(1,025)	(2,050)
<b>Net Cash From (For) Capital and Related Financing Activities</b>	<b>(42,025)</b>	<b>(2,050)</b>
<b>Cash Flows From (For) Investing Activities</b>		
Investment earnings	5,468	6,090
Purchase of investments	(50,168)	(67,333)
<b>Net Cash From (For) Investing Activities</b>	<b>(44,700)</b>	<b>(61,243)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(38,389)</b>	<b>(39,810)</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>153,102</b>	<b>192,912</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 114,713</b>	<b>\$ 153,102</b>
<b>Reconciliation of Operating Income to Net Cash From Operating Activities</b>		
Operating income	\$ 17,365	\$ 3,978
Adjustments to reconcile operating income to net cash from (for) operating activities:		
Depreciation expense	32,698	32,698
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	1,720	(1,642)
(Increase) decrease in due from other governmental units	1,158	(1,158)
Increase (decrease) in accounts payable	(5,765)	(9,984)
Increase (decrease) in due to other governmental units	1,160	(409)
<b>Total adjustments</b>	<b>30,971</b>	<b>19,505</b>
<b>Net Cash From (For) Operating Activities</b>	<b>\$ 48,336</b>	<b>\$ 23,483</b>

See accompanying notes to basic financial statements.

## **NOTES TO BASIC FINANCIAL STATEMENTS**

**VILLAGE OF MUIR**  
**SANITARY SEWER SYSTEM**  
**Notes to Financial Statements**  
**June 30, 2004**

---

## **Note A – Summary of Significant Accounting Policies**

The financial statements of the Village of Muir Sanitary Sewer System (the “System”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to local units of government. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

As of July 1, 2003, the System adopted GASB Statement No. 34, “*Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments.*” GASB Statement No. 34 requires new basic financial statements for reporting on the System’s financial activities. The effect of this change was to include a management’s discussion and analysis (MD&A) section providing an analysis of the System’s overall financial position and results of operation; include government-wide financial statements prepared on the full accrual basis of accounting; and include fund financial statements which present information with a focus on major funds, rather than on fund type.

### **1. The Reporting Entity**

The financial reporting entity consists of a primary government and its component units. The Sanitary Sewer System is a Proprietary (Enterprise) Fund of the Village of Muir and is the only fund presented in this report. There are no component units combined with the System for financial statement presentation purposes.

### **2. Government-Wide and Fund Financial Statements**

**Government-Wide Financial Statements** - The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the System as a whole. These statements are to distinguish between the *governmental* and *business-type activities* of the System. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The System does not have any governmental activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The System’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Interest earnings and other items not included among program revenues are reported instead as *general revenues*.

### **3. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

**VILLAGE OF MUIR**  
**SANITARY SEWER SYSTEM**  
**Notes to Financial Statements**  
**June 30, 2004**

---

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, then unrestricted as they are needed.

#### **4. Budgets and Budgetary Accounting**

The Village of Muir adopts a budget for the Sanitary Sewer System Enterprise Fund, although it is not legally required to do so. The budget adopted and presented in the financial statements was prepared on the same basis as the accounting basis used to reflect actual results.

#### **5. Investments**

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

#### **6. Capital Assets**

Capital assets, which include land, the sewer system and treatment facilities are reported in the government-wide and proprietary fund financial statements. Assets having a useful life in excess of one year and whose costs exceed \$1,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

The sewer system and treatment facilities are depreciated using the straight-line method over the following estimated useful lives:

Sewer system and facilities	40 years
Sewer system improvements	10 years

#### **7. Long-Term Obligations**

In the government-wide and proprietary fund financial statements, long-term debt is reported as liabilities on the Statement of Net Assets and Balance Sheet. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

#### **8. Customer Charges**

The monthly flat rate user charge for Sanitary Sewer System users was \$20.75 for the fiscal year.

**VILLAGE OF MUIR**  
**SANITARY SEWER SYSTEM**  
**Notes to Financial Statements**  
**June 30, 2004**

---

**9. Fund Equity**

In the fund financial statements, the proprietary fund reports restrictions of fund equity for amounts that are not available for expenses or are legally segregated for a specific purpose.

**10. Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Note B – Cash Equivalents and Investments**

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
- In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
- In commercial paper rated at the time of purchase within the 3 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
- In United States government or federal obligation repurchase agreements.
- In bankers' acceptances of United States banks.
- In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.
- In surplus funds investment pools.

Depositories actively used by the System during the year are detailed as follows:

1. Independent Bank
2. Union Bank
3. PrimeVest Financial Services

**VILLAGE OF MUIR**  
**SANITARY SEWER SYSTEM**  
**Notes to Financial Statements**  
**June 30, 2004**

---

Balances at June 30, 2004 related to cash equivalents and investments are detailed as follows:

Cash equivalents	\$ 114,713
Investments	<u>208,508</u>
	<u><u>\$ 323,221</u></u>

Cash equivalents consist of bank checking and savings accounts. Investments consist of certificates of deposit.

Cash equivalents and investments at June 30, 2004, as shown by carrying amount and bank balance, and classified by categories of credit risk, are itemized as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured – FDIC	\$ 308,508	\$ 308,508
Uninsured:		
Uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging bank or its trust department or agent but not in the System's name.)	<u>14,713</u>	<u>20,014</u>
	<u><u>\$ 323,221</u></u>	<u><u>\$ 328,522</u></u>

### **Note C – Accounts Receivable**

Virtually all of the accounts receivable of the Sanitary Sewer System are less than thirty days old. The balance is not material and collection is expected.

### **Note D – Due From/To Other Governmental Units**

The Village of Muir has an agreement with the Village of Lyons to provide sewage treatment facilities. The operating costs and capital outlay of the treatment facility are shared between the two villages on a metered flow basis. At June 30, 2004 the Village of Muir owed the Village of Lyons \$1,160, computed in accordance with this agreement.

**VILLAGE OF MUIR**  
**SANITARY SEWER SYSTEM**  
**Notes to Financial Statements**  
**June 30, 2004**

**Note E – Capital Assets**

	<u>Balances July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2004</u>
Capital assets not depreciated:				
Land	\$ 26,000	\$ —	\$ —	\$ 26,000
Capital assets being depreciated:				
Sewer system	522,971	—	—	522,971
Treatment facility	489,077	—	—	489,077
	<u>\$ 1,038,048</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,038,048</u>
Less accumulated depreciation for:				
Sewer system	\$ 382,422	\$ 13,074	\$ —	\$ 395,496
Treatment facility	342,930	19,624	—	362,554
	<u>725,352</u>	<u>\$ 32,698</u>	<u>\$ —</u>	<u>758,050</u>
Total accumulated depreciation				
	<u>\$ 312,696</u>			<u>\$ 279,998</u>

Allocation of annual depreciation expense:

Operating expenses	<u>\$ 32,698</u>
--------------------	------------------

**Note F – Long-term Debt**

The final balance of \$41,000 on the outstanding revenue bonds at June 30, 2003 was paid during the fiscal year. No other long-term debt is outstanding at June 30, 2004.

**Note G – Restricted Net Assets/Fund Equity**

Certain net assets/fund equity of the Sanitary Sewer System has been restricted for particular purposes as follows:

Bond payment reserve	\$ 38,010
Sludge removal reserve	113,290
Customer deposit refunds	<u>2,428</u>
Total Restricted Net Assets	<u>\$ 153,728</u>

## **SUPPLEMENTAL INFORMATION**



**VILLAGE OF MUIR  
SANITARY SEWER SYSTEM  
Combining Balance Sheet  
June 30, 2004**

<b>Assets</b>	<u>Receiving</u>	<u>Operating and Maintenance</u>	<u>Customer Deposits</u>	<u>General Purpose</u>
Cash equivalents:				
Restricted	\$ -	\$ -	\$ 2,428	\$ -
Unrestricted	-	26,195	-	56,090
Investments:				
Restricted	-	-	-	-
Unrestricted	-	-	-	88,108
Accounts receivable	7,680	-	-	-
Capital assets:				
Land	-	-	-	-
Collection system	-	-	-	-
Treatment facility	-	-	-	-
Accumulated depreciation	-	-	-	-
<b>Total Assets</b>	<u><u>\$ 7,680</u></u>	<u><u>\$ 26,195</u></u>	<u><u>\$ 2,428</u></u>	<u><u>\$ 144,198</u></u>
<b>Liabilities and Fund Equity</b>				
<b>Liabilities</b>				
Due to other governmental units	\$ -	\$ 1,160	\$ -	\$ -
<b>Fund Equity</b>				
Restricted	-	-	2,428	-
Unrestricted	7,680	25,035	-	144,198
<b>Total Fund Equity</b>	<u>7,680</u>	<u>25,035</u>	<u>2,428</u>	<u>144,198</u>
<b>Total Liabilities and Fund Equity</b>	<u><u>\$ 7,680</u></u>	<u><u>\$ 26,195</u></u>	<u><u>\$ 2,428</u></u>	<u><u>\$ 144,198</u></u>

<u>Sludge Removal</u>	<u>Bond and Interest Redemption</u>	<u>Bond Reserve</u>	<u>Capital Assets</u>	<u>Total</u>
\$ -	\$ -	\$ 30,000	\$ -	\$ 32,428
-	-	-	-	82,285
112,390	-	8,010	-	120,400
-	-	-	-	88,108
900	-	-	-	8,580
-	-	-	26,000	26,000
-	-	-	522,971	522,971
-	-	-	489,077	489,077
-	-	-	(758,050)	(758,050)
<u>\$ 113,290</u>	<u>\$ -</u>	<u>\$ 38,010</u>	<u>\$ 279,998</u>	<u>\$ 611,799</u>
\$ -	\$ -	\$ -	\$ -	\$ 1,160
113,290	-	38,010	-	153,728
-	-	-	279,998	456,911
<u>113,290</u>	<u>-</u>	<u>38,010</u>	<u>279,998</u>	<u>610,639</u>
<u>\$ 113,290</u>	<u>\$ -</u>	<u>\$ 38,010</u>	<u>\$ 279,998</u>	<u>\$ 611,799</u>

**VILLAGE OF MUIR**  
**SANITARY SEWER SYSTEM**  
**Combining Statement of Revenues, Expenses and Changes in Fund Equity**  
**For the year ended June 30, 2004**

	Receiving	Operating and Maintenance	Customer Deposits	General Purpose
<b>Operating Revenues</b>				
Sewer receipts	\$ 69,173	\$ -	\$ -	\$ -
Village of Lyons for operating and maintenance	-	10,840	-	-
Customer deposits	-	-	130	-
Other	2,000	2,752	-	-
<b>Total Operating Revenues</b>	<b>71,173</b>	<b>13,592</b>	<b>130</b>	<b>-</b>
<b>Operating Expenses</b>				
Salaries:				
Labor	-	22,895	-	-
Treasurer	-	3,420	-	-
Clerical	-	3,081	-	-
Office supplies	-	913	-	-
Samples and testing	-	1,381	-	-
Audit fees	-	4,000	-	-
Education and training	-	779	-	-
Insurance	-	742	-	-
Utilities	-	538	-	-
Repair and maintenance	-	2,275	-	-
Equipment rental	-	2,971	-	-
Vehicle rental	-	2,225	-	-
Miscellaneous	-	217	-	-
Customer deposit refunds	-	-	65	-
Depreciation	-	-	-	-
<b>Total Operating Expenses</b>	<b>-</b>	<b>45,437</b>	<b>65</b>	<b>-</b>
<b>Operating Income (Loss)</b>	<b>71,173</b>	<b>(31,845)</b>	<b>65</b>	<b>-</b>
<b>Nonoperating Revenues (Expenses)</b>				
Interest income	-	-	-	2,702
Interest expense	-	-	-	-
<b>Net Nonoperating Revenues (Expenses)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,702</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>71,173</b>	<b>(31,845)</b>	<b>65</b>	<b>2,702</b>
<b>Operating Transfers In (Out)</b>				
Transfer from receiving	-	-	-	-
Transfer from operating and maintenance	3,787	-	-	-
Transfer to sludge removal	(34,685)	-	-	-
Transfer to bond and interest	(1,025)	-	-	-
Transfer to capital assets	(41,000)	-	-	-
Transfer to receiving	-	(3,787)	-	-
<b>Total Operating Transfers In (Out)</b>	<b>(72,923)</b>	<b>(3,787)</b>	<b>-</b>	<b>-</b>
<b>Net Income (Loss)</b>	<b>1,750</b>	<b>(35,632)</b>	<b>65</b>	<b>2,702</b>
<b>Fund Equity, Beginning of Year</b>	<b>9,430</b>	<b>60,667</b>	<b>2,363</b>	<b>141,496</b>
<b>Fund Equity, End of Year</b>	<b>\$ 7,680</b>	<b>\$ 25,035</b>	<b>\$ 2,428</b>	<b>\$ 144,198</b>

Sludge Removal	Bond and Interest Redemption	Bond Reserve	Capital Assets	Total
\$ 10,670	\$ -	\$ -	\$ -	\$ 79,843
-	-	-	-	10,840
-	-	-	-	130
-	-	-	-	4,752
10,670	-	-	-	95,565
-	-	-	-	22,895
-	-	-	-	3,420
-	-	-	-	3,081
-	-	-	-	913
-	-	-	-	1,381
-	-	-	-	4,000
-	-	-	-	779
-	-	-	-	742
-	-	-	-	538
-	-	-	-	2,275
-	-	-	-	2,971
-	-	-	-	2,225
-	-	-	-	217
-	-	-	-	65
-	-	-	32,698	32,698
-	-	-	32,698	78,200
10,670	-	-	32,698	17,365
2,451	-	315	-	5,468
-	(1,025)	-	-	(1,025)
2,451	(1,025)	315	-	4,443
13,121	1,025	315	32,698	21,808
34,685	1,025	-	41,000	76,710
-	-	-	-	3,787
-	-	-	-	(34,685)
-	-	-	-	(1,025)
-	-	-	-	(41,000)
-	-	-	-	(3,787)
34,685	1,025	-	41,000	-
47,806	-	315	8,302	21,808
65,484	-	37,695	271,696	588,831
\$ 113,290	\$ -	\$ 38,010	\$ 279,998	\$ 610,639

**VILLAGE OF MUIR**  
**SANITARY SEWER SYSTEM**  
**Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual**  
**For the year ended June 30, 2004**  
**With comparative actual amounts for the year ended June 30, 2003**

	2004			2003
	Budget	Actual	Variance- Favorable (Unfavorable)	Actual
<b>Revenues</b>				
Sewer usage fees	\$ 85,000	\$ 79,843	\$ (5,157)	\$ 73,881
Reimbursements from Village of Lyons	12,000	10,840	(1,160)	11,158
Hookup fees, other	1,000	4,752	3,752	-
Customer deposits	-	130	130	192
<b>Total Operating Revenues</b>	<b>98,000</b>	<b>95,565</b>	<b>(2,435)</b>	<b>85,231</b>
<b>Operating Expenses</b>				
Salaries:				
Labor	18,000	22,895	(4,895)	21,649
Treasurer	4,200	3,420	780	3,018
Clerical	4,000	3,081	919	7,988
Office supplies	1,200	913	287	1,174
Samples and testing	1,000	1,381	(381)	1,056
Audit fees	4,000	4,000	-	3,825
Education and training	1,000	779	221	1,181
Insurance	2,000	742	1,258	726
Utilities	600	538	62	410
Repair and maintenance	2,000	2,275	(275)	1,066
Equipment rental	6,000	2,971	3,029	4,165
Vehicle rental	2,000	2,225	(225)	2,099
Miscellaneous	-	217	(217)	136
Customer deposit refunds	-	65	(65)	62
Depreciation	36,000	32,698	3,302	32,698
<b>Total Operating Expenses</b>	<b>82,000</b>	<b>78,200</b>	<b>3,800</b>	<b>81,253</b>
<b>Operating Income</b>	<b>16,000</b>	<b>17,365</b>	<b>1,365</b>	<b>3,978</b>
<b>Nonoperating Revenues (Expenses)</b>				
Interest income	5,000	5,468	468	6,090
Interest expense	(1,000)	(1,025)	(25)	(2,050)
<b>Net Nonoperating Revenues</b>	<b>4,000</b>	<b>4,443</b>	<b>443</b>	<b>4,040</b>
<b>Net Income</b>	<b>20,000</b>	<b>21,808</b>	<b>1,808</b>	<b>8,018</b>
<b>Fund Equity, Beginning of Year</b>	<b>588,831</b>	<b>588,831</b>	<b>-</b>	<b>580,813</b>
<b>Fund Equity, End of Year</b>	<b>\$ 608,831</b>	<b>\$ 610,639</b>	<b>\$ 1,808</b>	<b>\$ 588,831</b>

**VILLAGE OF MUIR  
SANITARY SEWER SYSTEM  
OPERATING AND MAINTENANCE FUND  
Combining Schedule of Expenses  
For the year ended June 30, 2004**

---

	Collection System	Treatment Facility	Totals
<b>Expenses</b>			
Salaries:			
Labor	\$ 11,534	\$ 11,361	\$ 22,895
Treasurer	3,420	-	3,420
Clerical	2,311	770	3,081
Office supplies	685	228	913
Samples and testing	-	1,381	1,381
Audit fees	2,000	2,000	4,000
Education and training	779	-	779
Insurance	556	186	742
Utilities	538	-	538
Repair and maintenance	-	2,275	2,275
Equipment rental	-	2,971	2,971
Vehicle rental	-	2,225	2,225
Miscellaneous	217	-	217
	<hr/>	<hr/>	<hr/>
<b>Total Expenses</b>	<b>\$ 22,040</b>	<b>\$ 23,397</b>	<b>\$ 45,437</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Hungerford, Aldrin,  
Nichols & Carter, P.C.  

---

C P A s   A N D   C O N S U L T A N T S

January 12, 2005

To the Members of the Village Council  
Village of Muir  
PO Box 205  
Muir, Michigan 48860-0205

Ladies and Gentlemen:

We have completed our audit of the financial records of the Sanitary Sewer System for the year ended June 30, 2004 and have enclosed 15 copies of your financial statements. We call attention to the following items:

**1. Shared Costs Of The Village Of Lyons:**

Balance due from Village of Lyons – June 30, 2003	\$1,158
Treatment costs (46.33% of \$23,397)	10,840
Payments received from Lyons	<u>(13,158)</u>
 Balance due to Village of Lyons – June 30, 2004	 <u><u>(\$1,160)</u></u>

**2. Adjusting Entries:**

We have enclosed adjusting entries for the year ended June 30, 2004. These entries should be posted to the general ledger as of June 30, 2004.

**3. Budget line items:**

The Village should budget line items based on anticipated revenues and expenses for the year. If significant variations are expected, the Village should amend the budget to more accurately reflect the actual numbers. The Village should consider adopting a budget for depreciation expense. Depreciation expense will be about \$32,698 each year, and a budget for this amount should be adopted.

Members of the Village Council

Page 2

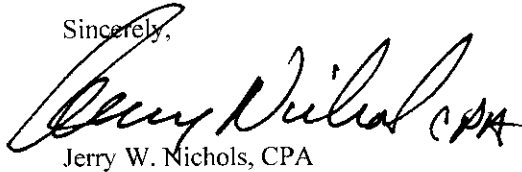
January 12, 2005

**4. Board Resolution:**

We recommend that the board adopt a resolution to discontinue the receiving fund, customer deposits fund, general purpose fund, bond and interest redemption fund and bond reserve fund. This will help to simplify the financial statement presentation. These funds will then be combined with the general operating fund.

If you have any questions or desire any additional information on these recommendations, please let us know. We wish to thank the Village Clerk and Treasurer for their assistance during the course of our examination.

Sincerely,

A handwritten signature in black ink, reading "Jerry W. Nichols CPA". The signature is fluid and cursive, with the "CPA" part written in a slightly different, more formal script.

Jerry W. Nichols, CPA

Enclosures